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Development of Economical Science in Uzbekistan

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ABSTRACT

Uzbekistan's unique post-independence experiment with development was led by Islam Karimov until his sudden death in September 2016. Despite defying international advice on structural reforms, under Karimov's rule, Uzbekistan achieved an average annual growth rate of 5% in the period 1996–2016, which was particularly impressive (over 8%) in 2004–2016. Karimov also left behind strong macroeconomic fundamentals for his successor. Since taking over the presidency in December 2016, Shavkat Mirziyoyev has introduced wide-ranging reforms, creating an impression of a de facto start to transition in Uzbekistan. This study analyses Karimov's economic legacy and assesses whether it has enabled or hindered the developmental targets set by his successor.

KEYWORDS: *development, economy, commerce, culture*

Uzbekistan has an established legal framework designed to ensure a smooth transition of power in situations like this. According to Article 96 of the Uzbek Constitution, when a sitting president dies or becomes unable to discharge their duties, the power of the office will be transferred to the Chairman of the Senate in the interim period. In reality, however, the likelihood of the transfer of power through the constitutionally prescribed channel was very slim as the Chairman of the Senate, Nigmatulla Yuldashev, was a little-known man with no *de facto* political power. Further, under Karimov's autocratic reign, none of the key members of his bureaucratic apparatus were allowed to share their political views on traditional or social media and/or engage in any other forms of public exposure opportunities, as these could potentially help them gain political capital. Therefore, there was no *de facto* succession planning in place in September 2016 as Karimov had then entered only the second year of his five-year presidency. Hence, his sudden death, coupled with the lack of a clear heir apparent, created a moment of real anxiety for the country, its neighbours and international observers as the consequences of a potential power struggle in the most populous and geopolitically important country at the heart of Central Asia could be inconceivably disruptive.

The early 1990s: initial conditions shape policy choices

Economic relations among the Soviet successor states were strongly intertwined by default as they had been coordinated from the centre, reflecting Union-level policy preferences. Uzbekistan specialised in commodity production and cotton, which dominated the agricultural sector. While Uzbekistan ran an inter-republican trade surplus in agriculture and light industry, it had large trade deficits in relation to food, energy and machinery (IMF 1991, p. 228). The sudden disintegration of the Soviet Union in August 1991 was largely unexpected, leaving member countries, especially those in Central Asia, ill-prepared for economic and political self-management. Some inter-republican trade relations that made economic sense at the Union level ceased to be commercially viable on the basis of mutual economic interests, inevitably resulting in large output losses and the deterioration of living conditions for many (Ruziev *et al*. 2007).

TABLE 1 Initial Conditions for Selected FSU Countries

	Population (million), 1989	Income *per capita* as percentage of the USSR average, 1988	Poverty, * 1989
Russia	148.0	110	5.0
Ukraine	51.8	96	6.0
Kazakhstan	16.7	93	15.5
Tajikistan	5.2	54	51.2
Uzbekistan	20.3	62	43.6

The output shock as well as the abrupt drying up of fiscal support from the centre had the potential to affect Uzbekistan with particular severity as a significant proportion of its large population was poor. As Table 1 shows, Uzbekistan's population was over 20 million in 1989, the third largest in the former Soviet Union (FSU) after Russia and Ukraine, and its income *per capita* was 62% of the USSR average. While 5% and 6% of households in Russia and Ukraine respectively earned less than R75 per month in 1989 (the effective minimum monthly wage at the time), this figure was 44% for Uzbekistan.

Unlike most Eastern European countries, which had a long history of independent statehood and hence could afford to concentrate their reform efforts on creating functioning markets, building effective and credible state institutions was another monumental challenge for newly independent post-Soviet countries. Therefore, setting up and resourcing strong state institutions, some of which had to be created anew, to manage their internal and external affairs, defend their national borders, maintain law and order, collect taxes, and run and regulate newly created financial systems, was a vital first step to building a functioning market economy. Again, this was particularly important for a country of Uzbekistan's size and geopolitical importance in the Central Asian region because of the material risks arising from emerging Islamist radicalism and populist nationalism, on the one hand, and the potential spill-over effects of civil conflicts in neighbouring countries, such as Tajikistan, Kyrgyzstan and the inherently unstable Afghanistan, on the other.

The customary Washington Consensus reform policy package, promoted by IFIs to developing countries ranging from the emerging economies of Latin America to the transition countries of Eastern Europe, was also on offer for Uzbekistan. The policy advice, comprising liberalisation,

deregulation and privatisation, called for the removal of government intervention in matters concerning investment, production and exchange. It also implicitly recommended the gradual adoption of Western-style liberal democracy in political life (Chang 2002).

However, by assessing the overall situation in the country, Karimov's government decided that it would play a proactive role in dealing with the immediate economic and political challenges, including creating a safety net to protect the country's poor and a strong state apparatus to prevent any potential civil strife. The official government line was that policies recommended by IFIs did not take into account Uzbekistan's particular needs and hence did not fit Uzbekistan's gradualist approach to transition in general, and Karimov's determination to carry out market-oriented reforms on his own terms and conditions in particular (Ruziev *et al*. 2007). In practice, however, public condemnation by Western-led institutions of the regime's abysmal human rights record, including the harsh treatment of Karimov's political opponents[6] and the widespread use of forced labour, including child labour, in agriculture also played an important role in the government's decision to cool its relationship with IFIs (Akimov 2015). Unsurprisingly, with the rejection of the Washington Consensus framework for policymaking, the relationship between the Uzbek authorities and IFIs progressively worsened from the mid-1990s.

Some initial conditions were advantageous to the young Uzbek government, which aided its choice of policy approach. To begin with, Uzbekistan was established in the mid-1920s in central parts of the lands occupied by the Timurid Empire from the fourteenth to the sixteenth century, and then by the three independent kingdoms centred on Bukhara (emirate), Khiva (khanate) and Kokand (khanate), which ruled Central Asia until Russia invaded the region in the second half of the nineteenth century. Tashkent served as the regional administrative hub for the rule of Central Asia by Imperial Russia and subsequently by the Soviet government in its early years. This history meant that the Uzbek government had both a strong ideological narrative of independent statehood and the robust institutional capacity to create functioning state institutions. Furthermore, it had easily exportable tradeable goods such as cotton and gold, which jointly accounted for more than two-thirds of the country's export revenues in the early 1990s. These resources meant that the Uzbek government had some policy breathing space, as it did not have to rely on the reform-conditional help of IFIs in stabilising the country's macroeconomic conditions, including its balance of payments problems. Since joining the IMF in 1992, Uzbekistan has borrowed only twice from the Fund, US$106 million in 1995 and US$59 million in 1996.[7]

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